

## Message Text

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ACTION AID-59

INFO OCT-01 EA-11 ADP-00 IGA-02 NEA-10 L-03 CIAE-00 INR-10

NSAE-00 RSC-01 DODE-00 EB-11 AGR-20 COME-00 OMB-01

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 4561

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E. O. 11652: N/ A

TAGS: EAID, EAGR, RP

SUBJ: PL 480 TITLE I PROGRAM FOR PHILIPPINES

REF: A. MANILA 2131

B. TOAID A-105 3/30.73

BEGIN SUMMARY. ACTION REQUESTED: (1) MISSION URGES FAVORABLE RESPONSE TO GOP REQUEST SOR 100,000 MT RICE. (2) IN ORDER EASE PESO DEPOSIT PROBLEM CAUSED BY GOVERNMENT CEILING PRICE ON RICE, WE RECOMMEND FUTURE TITLE I AGREEMENTS PERMIT DEPOSIT OF SALES PROCEEDS RATHER THAN REQUIRE DEPOSIT OF PESO EQUIVALENT OF US FINANCING. (3) REQUEST EARLIEST POSSIBLE NEGOTIATING INSTRUCTIONS FOR NEXT TITLE I AGREEMENT, PROPOSED TO TOTAL \$38.7 MILLION, PURSUANT TO US PLEDGE AT LAST CG MEETING. NEGOTIATIONS SHOULD BE COMPLETED BEFORE MAY 29 CG MEETING.

1. IN RESPONSE GOP REQUEST FOR 100,000 MT RICE PERSONALLY MADE TO VICE PRESIDENT AGNEW BY PRESIDENT MARCOS AND CONVEYED BY DFA NOTE OF FEB 20 ( REF A), MISSION RECOMMENDS FURNISHING 50,000 MT AS EARLY AS POSSIBLE IN FY 1974 SUPPLY PERIOD AND AS MUCH AS CAN BE PROVIDED OF REMAINING 50,000 MT UNDER 1972 AGREEMENT. TO ENABLE SUPPLY OF RICE IN FY 1973, MAY 4 AGREEMENT  
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WOULD NEED TO BE FURTHER AMNDED TO EXTEND SUPPLY PERIOD FOR RICE TO JUNE 30, 1973. PRESIDENT MARCOS ACKNOWLEDGED TO VICE PRESIDENT AGNEW THAT GOP MADE A MISTAKE IN CANCELLING RICE PURCHASE LAST OCTOBER. ACUTE NEED FOR RICE IMPORTS IS NOW A MAJOR CONCERN OF TOP GOP OFFICIALS WHO ESTIMATE THAT BETWEEN 500,000 AND 700,000 MT WILL HAVE TO BE IMPORTED TO MEET SHORTFALL IN PRODUCTION BEFORE NEW MAJOR HARVEST IN NOVEMBER.

2. A MAJOR PROBLEM IN PAST FOR GOP PURCHASE OF PL 480 RICE ( AND CAUSE OF OCTOBER 1972 CANCELLATION) HAS BEEN HIGH PRICE OF US RICE AND REQUIREMENT THAT GOP DEPOSIT PESOS EQUIVALENT TO FULL DOLLAR PRICE WHEN CEILING SALES PRICE IN PHILIPPINES HAS BEEN MUCH LOWER. INTERNAL GOP FINANCIAL ARRANGEMENTS APPARENTLY ARE NOT FLEXIBLE ENOUGH TO PROVIDE FUNDS TO MAKEUP DIFFERENCE.

3. WITH REGARD TO 49,809 MT OF RICE DELIVERED IN ACCORDANCE WITH AUGUST 16 AMENDMENT TO MAY 4, 1972 TITLE I AGREEMENT, WE HAVE RECEIVED NOTE FROM DFA REQUESTING FURTHER AMENDMENT OF AGREEMENT TO PROVIDE THAT PESO DEPOSITS BE ON THE BASIS OF THE DOMESTIC CEILING PRICE OF RICE AT THE TIME OF SALE. GOP REQUEST POINTS UP CRITICAL PROBLEM ENCOUNTERED BY GOP AGENCIES IN UTILIZING US RICE. WE UNDERSTAND THAT SIMILAR PROBLEM IN OTHER COUNTRIES ( INDONESIA) HAS BEEN MET BY WAIVING PROVISION IN STANDARD TITLE I AGREEMENT FORMAT REQUIRING LOCAL CURRENCY DEPOSITS TO BE QUOTE NOT LESS THAN THE LOCAL CURRENCY EQUIVALENT OF THE DOLLAR DISBURSEMENT END QUOTE BY THE USG. WE WOULD PROPOSE LANGUAGE ALONG FOLLOWING LINES IN BOTH 1972 AGREEMENT AND PROPOSED 1973 AGREEMENT: QUOTE IN THE CASE ON GRAINS FOR WHICH THE GOVERNMENT OF THE IMPORTING COUNTRY HAS ESTABLISHED DOMESTIC CEILING PRICES WHICH YIELD LESS THAN THE AMOUNT REQUIRED BY THE FOREGOING PROVISION, ONLY THE PROCEEDS OF SALE AT THE CEILING PRICE NEED BE DEPOSITED. END QUOTE.

4. EXEC SECY MELCHOR HAS EXPRESSED DEEP CONCERN ABOUT RICE SUPPLY SITUATION AND HAS GIVEN HIS ASSURANCE THAT GOP WOULD PURCHASE WHATEVER RICE USG MADE AVAILABLE IN RESPONSE GOP REQUEST. MELCHOR LIMITED OFFICIAL USE

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INDICATED USG WILLINGNESS ACCEPT DEPOSIT OF SALES

PROCEEDS AT CEILING PRICE WOULD MAKE IT POSSIBLE FOR  
GOP TO RECEIVE RICE WITHOUT MAJOR TIME- CONSUMING AND  
BUREAUCRATICALLY DIFFICULT BUDGETARY AND ADMINISTRATIVE  
ARRANGEMENTS.

5. MELCHOR AND OTHERS VOICED CONCERN THAT GOP EFFORTS  
TO CONCLUDE PURCHASE OF 300,000 MT OR RICE FROM PAKISTAN

MAY FAIL BECAUSE GOP OFFICIALS ARE DEALING  
THROUGH MIDDLE MEN AND DO NOT HAVE PAKISTAN GOVERNMENT  
ASSURANCE THAT RICE WILL BE MADE AVAILABLE. WE HAVE  
LEARNED SEPARATELY FROM JAPANESE EMBOFFS THAT  
JAPANESE GOVERNMENT LIKELY MAKE ONLY TOKEN AMOUNT ( LESS  
THAT 10,000 MT) AVAILABLE TO PHILIPPINES THIS YEAR. ( WE  
NOTE FROM TOKYO 4543 THAT GOP HAS REQUESTED 200,000 MT  
FROM GOJ AND THAT GOJ HAS NOT YET DECIDED HOW TO  
RESPOND.) GOP HOPES SOM ADDITIONAL SUPPLIES CAN BE  
PURCHASED FROM TAIWAN ( UP TO 50,000 MT) AND PRC (40,000  
MT THROUGH HONG KONG BROKERS). IT SEEMS INEVITABLE FROM  
FOREGOING BLEAK SUPPLY PICTURE THAT CRITICAL RICE  
SHORTAGE WILL DEVELOP BY JULY OR AUGUST.

6. REF B PROPOSED A \$38.7 MILLION TITLE I PROGRAM FOR  
PHILIPPINES FOR FY 1974, TO BE CONCLUDED BEFORE MAY  
1973 CG MEETING. COMMODITY BREAKDOWN AS FOLLOWS:

CORN 150,000 MT \$ 8.5 MILLION

COTTON 90,000 BLS 12.5

TOBACCO 2,000 MT

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\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* LIMITED OFFICIAL USE

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